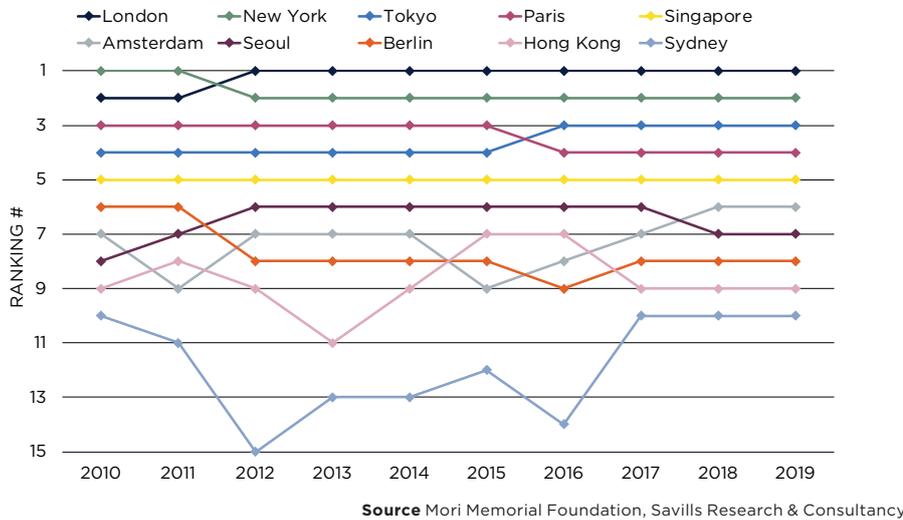


Tokyo Residential

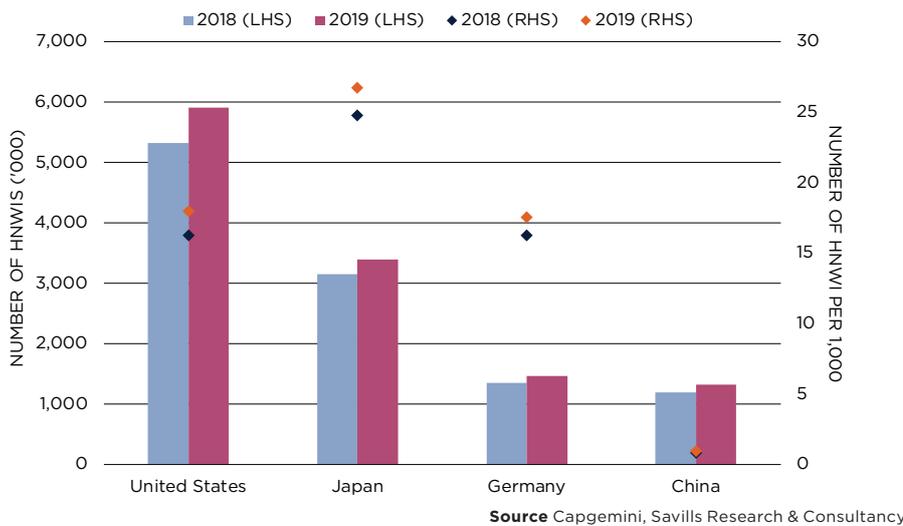


Tokyo's ultra-luxury condo market enters new stage

GRAPH 1: Global Power City Index Ranking, 2010 to 2019



GRAPH 2: Total Number Of HNWI's, And The Number Per 1,000 People, 2018 And 2019



INTRODUCTION

Tokyo's ultra-luxury residential market¹ is underpinned by a high concentration of UHNWIs in Japan and increasing overseas interest. Although the market was historically considered undersupplied, the tide has been changing over the past few years, with leading players such as Mitsui Fudosan and Mori Building paving the way. Encouraged by potential growth in this sector, new international players have also ventured into this segment.

As Tokyo continues to go through a large redevelopment phase and solidify its status as a global destination, high-

quality residential properties in prime locations should see increasing popularity. Recognised as a dynamic mega-city with a stable political environment and rule of law, as well as great access to world-class attractions, Tokyo is a low-risk environment where UHNWIs can comfortably store wealth.

DEMAND DRIVERS FOR ULTRA-LUXURY RESIDENCES

Japan's ultra-luxury residential market is buttressed by the country's large cohort of wealthy individuals. According to Wealth-X, a global wealth information provider, Japan was home to 19,820 individuals with a net worth of US\$30 million or more in 2019,

the third highest number in the world. Out of that sum, 7,800 or about 40% were located in Tokyo, providing a sound buyer base for ultra-luxury residences in the city. Additionally, neighbouring regions such as Hong Kong and China also house a large UHNW population, together totalling about 34,000. Appetite for ultra-luxury residences in Tokyo is also strong from these overseas buyers, and interest is likely to increase as Japan becomes more attractive amidst persistent global uncertainty.

Although the number of individuals who can afford ultra-luxury residences is extremely small, Tokyo has a large HNWI pool (individuals with at least US\$1 million), which ensures sufficient underlying demand for the city's upscale lifestyle and, in turn, boosts the high level of liveability as demonstrated by the global power city index (Graph 1). According to Capgemini's "World Wealth Report 2020", Japan boasts 3.4 million HNWI's, second only to the United States (5.9 million HNWI's). However, when taking total population into account, Japan is clearly in the lead with close to 25 HNWI's per 1,000 people (Graph 2), not to mention that this wealth is much more geographically concentrated. This high density of wealth provides a sound demand source for the high-end amenities that buyers of ultra-luxury residences seek. This large pool of HNWI's is also essential for making some ultra-luxury developments feasible, as, for instance, residential towers of even the highest calibre mainly offer units priced in JPY hundred millions, with only a few ultra-luxury units.

TRANSACTION AND SUPPLY TRENDS

The first decade of the 21st century saw only a few transactions in the ultra-luxury residential space, but the segment has become more established during the following decade. Within only the last few years, for instance, a dozen ultra-luxury residential units have been sold with prices around JPY2 billion to JPY3 billion, or higher than JPY20 million per tsubo, with some transactions reaching nearly JPY30 million per tsubo. Once a rarity, units priced around JPY1 billion to JPY1.5 billion, or JPY15 million per tsubo, have recently become "common".

At present, the total number of ultra-luxury units is at most 50, and this figure is likely to rise to around 100 over the

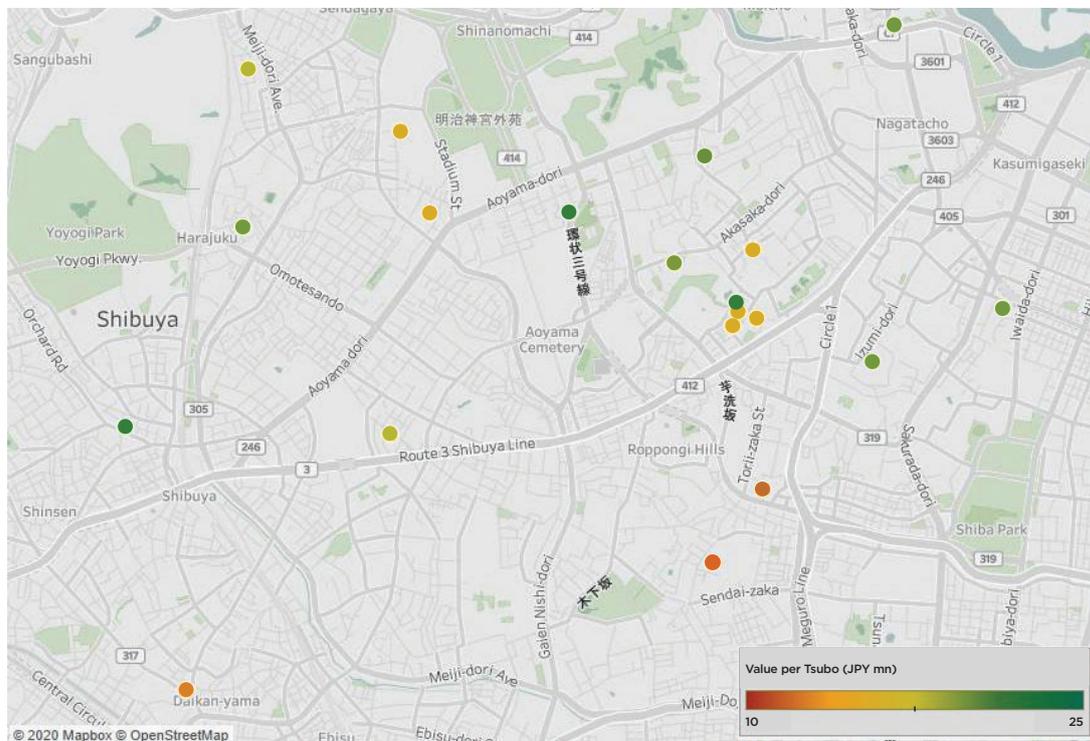
¹ Although there is no single definition of "ultra-luxury" in the industry, for the purpose of this report, we define ultra-luxury condo units as those with sale prices at, or exceeding, JPY1 billion.

next few years on the back of mega-sized developments in Toranomon and Azabudai. Mori Building's Toranomon Residential Tower is expected to feature ultra-luxury residential units, which will likely include some units valued at over JPY5 billion. Meanwhile, Tokyo World Gate, also in Toranomon, and the Azabudai redevelopment project are also expected to add dozens of condos exceeding the JPY1 billion mark in this sector.

Moreover, renowned international players have started to make forays into the market and should subsequently transform Tokyo into a better-established location

Tokyo's ultra-luxury residential market has been growing, with demand bolstered by a sound domestic base and increasing interest from UHNWIs abroad. While the COVID-19 pandemic has slowed transaction activity, this sector is likely to expand further and benefit from the recovery of inbound visitors.

MAP 1: Selected Ultra-luxury Condos And Condos Transactions in Tokyo



PROPERTY NAME	WARD	AREA
Park Mansion Hinokicho-Koen	Minato	Roppongi
Park Court Aoyama The Tower	Minato	Minami Aoyama
The Court Jingugaien	Shibuya	Jingumae
Park Court Akasaka Hinokicho The Tower	Minato	Akasaka
Park Court Akasaka The Tower	Minato	Akasaka
Park Court Shibuya The Tower	Shibuya	Udagawacho
Hirakawacho Mori Tower Residence	Chiyoda	Hirakawacho
Toranomon Hills Residence	Minato	Toranomon
Ark Hills Sengokuyama Residence	Minato	Roppongi
MARQ Omotesando One	Shibuya	Jingumae

Source Savills Research & Consultancy

for the ultra-luxury space to appeal to a wider buyer base. Some of their projects are located in the submarkets that historically have not seen ultra-luxury residential developments, possibly broadening the market going forward.

COVID-19 IMPACT

As the ultra-luxury residential segment is bolstered by UHNWIs, whose wealth is relatively insulated from economic cycles, the impact of the COVID-19 pandemic appears limited. While the difficulty of travelling to Japan is keeping overseas buyers at bay and transaction activity has slowed down as a result, some domestic buyers have seen this as an opportunity to enter

the market. Additionally, the widely publicised claim that Tokyo will witness major population outflows as a result of COVID-19 and remote working arrangements will likely prove to be exaggerated in the long-term. Indeed, the urban lifestyle that Tokyo offers is irreplaceable and should continue to draw people to the capital, especially those with ample disposable income.

OUTLOOK

With an ongoing stream of large-scale redevelopment projects, the ultra-luxury sector appears to set to double its stock over the next few years. Considering that development land is extremely lacking in prime areas and that only

a few major developers are active in the ultra-luxury space, the market is protected from an abrupt increase in supply. However, the growing popularity of this sector is attracting interest from new domestic and overseas players.

On-going political unrest overseas should reinforce Japan's stable image abroad, further expanding the global buyer base. Although mass inbound tourism will require years to recover, UHNWIs should be able to return to Japan now using, for instance, business track entries. Going forward, therefore, Tokyo should remain a safe bet in an increasingly unpredictable global environment.



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